

## **REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON SALDANHA BAY MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the financial statements of the Saldanha Bay Municipality set out on pages 4 to 82, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### **Accounting Officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Saldanha Bay Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

**Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Significant uncertainty**

8. With reference to note 42 to the financial statements, the municipality is a defendant in various law suits. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

**Restatement of corresponding figures**

9. As disclosed in note 43 to the financial statements, the corresponding figures for the year ended 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of Saldanha Bay Municipality at, and for the year ended 30 June 2012.

**Material losses/ Impairments**

10. As disclosed in note 36 to the financial statements, debtors to the total value of R9 100 590 (representing 5% of debtors) were written off due to these debtors not being recoverable.
11. The municipality suffered significant electricity losses to the value of R27 225 397. Electricity lost on distribution represents 10.9% of units purchased of which 6% is lost due to heat that is generated in the transformers and the remaining losses are through distribution.

**Material under spending of the budget**

12. As disclosed in note 53 to the financial statements, the municipality under spent its capital budget by R28 101 996 at 30 June 2012. This represents 21% of the capital budget. The under spending was due to delays in the implementation of various projects such as the housing project, the Paternoster sewer plant project, certain storm water projects, the Saldanha and St Helena Bay water projects and sand and electricity projects.

**Material under spending of conditional grants**

13. As disclosed in note 20 to the financial statements, the municipality under spent its conditional grants and receipts by R51 846 634 at 30 June 2012. This represents 35% of conditional grants received. The under spending was due to delays in the implementation of various projects such as housing, roads and sidewalks, libraries, sports and recreation projects.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

14. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the of annual performance report as set out on pages 27 to 46 of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*. The reliability of the information in respect of the selected development priorities or objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

### **Additional matters**

18. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matters below:

### **Achievement of planned targets**

19. Of the total number of 101 planned targets, only 51 were achieved during the year under review. This represents 49.5% of total planned targets that were not achieved during the year under review. This was mainly due to indicators and targets that were not suitably developed during the strategic planning process. Furthermore, 71 of the total number of targets set for the year are in respect of objectives that are considered to be qualitatively material. Of these targets, 57.7% were not achieved during the year under review.

### **Material adjustments to the annual performance report**

20. Material audit adjustments in the annual performance report were identified during the audit, which were all corrected by management.

### **Compliance with laws and regulations**

21. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Annual financial statements, performance and annual reports**

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, liabilities, and revenue, expenditure and disclosure items identified by the auditors in the financial statements submitted for audit were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### **Audit committee**

23. The audit committee was not constituted as required by section 166(4)(a) of the MFMA as it did not consist of at least three persons for a major part of the financial year.

#### **Asset management**

24. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(c) of the MFMA as material misstatements relating to assets were identified.

#### **Internal control**

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

26. Whilst the municipality has issued policies in terms of the relevant legislation, these policies had not been implemented in all instances, as a result of a lack of consistent training and due to significant leadership changes at a political and administrative level, which impacted negatively on leadership oversight regarding compliance with the relevant laws and regulations.
27. Even though actions plans were developed, the implementation and monitoring thereof was only effective in the latter part of the financial year resulting in repeat findings in areas such as material misstatements in financial statements and other reported non-compliance with laws and regulations.

#### **Financial and performance management**

28. Management in the finance section and the directors responsible for predetermined objectives did not implement adequate procedures to ensure the credibility of financial and performance information and to monitor compliance with applicable laws and regulations.

#### **Governance**

##### **Risk management activities and risk strategy**

29. The municipality did not have a risk committee and did not fill the position of risk officer resulting in risks relating to material misstatement, performance reporting, as well as compliance with laws and regulations not being adequately evaluated and managed effectively.

**Internal audit**

30. Although internal audit conducted all its planned audits and had certain initiatives on operation clean audit, there was no adequate follow up of the implementation of internal and external audit recommendations to address past audit outcomes. Consequently, there were repeat findings and material misstatements in areas such as supply chain management, financial statements and predetermined objectives.

**Audit committee**

31. The audit committee was composed of two members for most of the financial year as the municipality experienced challenges in appointing a suitable candidate timeously. However, the existing members did meet throughout the year to perform its governance functions, as legislated.

**OTHER REPORTS****Investigations in progress**

32. An investigation was in progress at year end into allegations against project managers on transgressions under supply chain management and the management of certain building projects.

**Investigations completed during the year**

33. The municipality engaged the services of an advocate to perform an investigation into alleged irregular payments authorised by a director. The matter was referred to council and disciplinary action was instituted against the director.

*Auditor-General*

Cape Town

30 November 2012



AUDITOR-GENERAL  
SOUTH AFRICA

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